

FINANCIAL AND COMPLIANCE REVIEW GUIDE FOR THE QUALITY SAMPLES PROGRAM

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This guide provides instructions for performing a financial and compliance review of a Quality Samples Program (QSP) Participant. It provides guidance for determining whether the Participant:

1. Met the financial and administrative responsibilities of its QSP program agreement;
2. Claimed only authorized, reasonable, and documented expenses; and
3. Reported only eligible and documented contributions and provided the required percentage match.

The instructions outlined in this guide apply to both the Participant's headquarters and overseas field offices.

A copy of the compliance review checklist covering the segments contained in this guide is provided for the reviewer as a control worksheet. Because of the variety of Participant organizations, reviewers must use their professional judgment to tailor the guide and checklist to meet specific conditions at the review site.

BACKGROUND

Section 5(f) of the Commodity Credit Corporation (CCC) Charter Act, 15 U.S.C. 714(c)(f) authorizes CCC to aid in the development and expansion of export markets for U.S. agricultural commodities. The Quality Samples Program (QSP) is intended to accomplish this market development by assisting U.S. entities in providing commodity samples to potential foreign importers to promote better understanding and appreciation for the high quality of U.S. agricultural products. The QSP is administered by personnel of the U.S. Department of Agriculture's (USDA) Foreign Agricultural Service (FAS). The QSP is designed to encourage the development and expansion of export markets for U.S. agricultural commodities by assisting U.S. entities in providing commodity samples to potential foreign importers to promote a better understanding and appreciation for the high quality of U.S. agricultural commodities. Under the QSP, a Participant would provide information to target audiences regarding the attributes, characteristics, and proper use of U.S. agricultural commodities.

Any U.S. private or government entity with an interest in exporting U.S. agricultural commodities may apply to the program. This includes Federal, State, and local agencies, non-profit trade associations, universities, agricultural cooperatives, state regional trade groups, and profit-making entities.

Applications for QSP are developed by organizations interested in participating in the program and submitted to FAS separately or as part of the Unified Export Strategy (UES), the process that allows applicants to submit a single, consolidated marketing plan and strategy and request funding under various USDA market development programs. Upon approval of an application, FAS sets an activity funding level and signs a program agreement with the Participant.

The QSP proposed regulations (7 CFR part 1483), dated August 3, 2006, must be used in conjunction with the Participant's authorization letter and program agreement to define activity requirements including activity dates, reimbursement procedures, record and report requirements, and activity evaluations. Under the QSP, funds from CCC are used to reimburse the allowed expenditures of program Participants conducting approved activities.

All Participants must keep an itemized list of allowable expenditures including the bill of lading incurred during the approved activity and submit them to FAS for reimbursement. All expenditure claims are subject to review, and Participants are held accountable for maintaining proper documentation for the program.

GENERAL REVIEW INSTRUCTIONS

A. PRELIMINARY REVIEW WORK

1. Schedule and confirm review dates with the Participant.
2. Notify the Agricultural Counselor/Attaché/Trade Officer of the scheduled itinerary for the review of the Participant's overseas offices (if applicable).
3. Become familiar with the QSP regulations (7 CFR part 1483), QSP program notices, and any other policies and instructions relating to QSP.
4. Review the previous compliance review report and working papers. Note the report findings and recommendations and their resolution. During the course of the current review, determine the present status of past findings.
5. Request and review the Participant's signed QSP agreement and approval letter. These documents are filed with the Grant Programs Branch (GPB) and/or the Cooperator Programs Division (CPD).
6. Through discussion with the Participant's Marketing Specialist from CPD and a review of the correspondence files, determine whether any problems or special conditions exist.

7. Obtain a schedule of reimbursements made by CCC during the review period from the UES database. This schedule can serve as the control worksheet for expenses examined during the review period.

- B. ENTRANCE CONFERENCE.** Meet with Participant officials at the start of the review to discuss the purpose and scope of the review and any potential problem areas.
- C. WORKING PAPERS.** Support all findings with complete and accurate working papers. Each working paper should identify the: (1) purpose or objective for developing and analyzing information in each review area; (2) scope of the review coverage; (3) source of the data reviewed; (4) conclusions as to the facts developed; and (5) appropriate recommendations. Cross-reference the working papers to the review report and the review checklist.
- D. EXIT CONFERENCE.** Meet with Participant officials at the end of the review to discuss all findings, recommendations and areas of concern, as well as any additional information the Participant needs to provide. Include a summary of the meeting along with a list of attendees (with name and title) in the review working papers.
- E. REVIEW REPORT.** A review report containing all findings, observations and recommendations resulting from the review must be issued to the Participant within 60 days after the date of the on-site review. The Participant will be asked to respond to the report within 60 days after the issue date of the report.

SPECIFIC REVIEW TASKS

A. FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEM CONTROLS REVIEW

1. *Objective.* To determine whether the Participant has a financial management and accounting system in place that conforms to generally accepted accounting principles.
2. *References.* 7 CFR part 1483.9; FAS Program Notices dated July 14, 2004 and October 25, 2004 [Office of Management and Budget (OMB) Circular A-133 audits].
3. *Review Steps.*
 - a. Identify Participant personnel responsible for managing QSP activities. Evaluate whether the Participant provides sufficient U.S.-based and overseas office staff to effectively manage QSP.
 - b. Determine whether the Participant has written instructions and authorizations supplementing the QSP regulations for U.S.-based and overseas office use. Evaluate the adequacy of any written instructions.
 - c. Verify that the Participant's financial management and accounting system contains:
 - (1) Effective controls over and accountability for all activity funds.

- (2) A records management system which fully identifies all project expenditures by QSP agreement number, project year, country or region, activity number and cost category.
 - (3) Original documentation supporting expenditures and reimbursement claims for a period of three calendar years following the expiration date of the project agreement.
 - (4) A direct means or audit trail for verifying recorded data with reimbursement claims and expenditure documentation.
 - (5) Procedures for determining the allowability of QSP expenditures. In most cases, control is provided by an employee who determines whether the expenditure is allowable before it is posted to the activity records and claimed for reimbursement.
 - (6) Periodic reconciliation of program obligations, expenditures, and unexpended balances with reports received from CCC.
- d. Obtain and review the annual audit report, including the management letter, prepared by the Participant's independent public accountant. If the organization receives \$500,000 or more of federal funds (from one or more sources) in a year, it is required to have an audit conducted in accordance with OMB Circular A-133 for that year.
 - e. Determine whether the Participant has procedures in place to resolve audit and review findings and to implement recommendations.

B. ACTIVITY EXPENDITURES

- 1. *Objective.* To determine whether QSP funds were used only to reimburse allowable expenditures made to further an approved activity, for which the Participant has not been or will not be reimbursed by any other source.
- 2. *References.* 7 CFR parts 1483.4 and 1483.5.
- 3. *Review Steps:*
 - a. Verify the QSP activity either subjected the commodity sample to further processing or substantial transformation in the importing country, or that the sample was used in technical seminars designed to demonstrate to an appropriate target audience the proper preparation or use of the sample in the creation of an end product.
 - b. Ensure the samples provided in the QSP activity were not directly used as a part of a retail promotion or supplied directly to consumers. The end product (i.e., the product resulting from further processing, substantial transformation, or a technical seminar) may be provided to end-use consumers to demonstrate to importers consumer preference for that end product.
 - c. Ensure the QSP activity included a provision of technical assistance to facilitate successful use

of the samples by the targeted audience.

- d. Verify that QSP funds were reimbursed only for the following allowable expenditures:

(1) Purchase price of commodity samples.

(2) Costs of transporting samples domestically to the port of export and then to the foreign port (or point of entry).

- e. Verify that QSP funds were not reimbursed for transportation costs from the foreign port (or point of entry) to the final destination.

- f. Verify that QSP funds were not reimbursed for the costs incidental to purchasing and transporting samples (i.e., inspection fees, documentation fees).

- g. Verify that individual activities were limited to \$75,000 of QSP reimbursement.

- h. Verify that activities comprised of technical preparation seminars were limited to \$15,000 of QSP reimbursement.

4. *Questionable Expenditures.* When reviewing expenditures, evaluate each item to determine whether the expenditure is an acceptable charge based upon the aforementioned criteria. Expenditures that do not meet the above criteria should be questioned. Include the questionable expenditures as findings in the review report. Questionable expenditures generally fall into one or more of the following categories:

- a. *Unauthorized.* An expenditure that is specifically unauthorized under the QSP regulations.
- b. *Undocumented.* An expenditure with insufficient or no supporting documentation attached.
- c. *Unreasonable.* An expenditure which may not be specifically unauthorized or undocumented, but which does not reflect an action that a prudent person would have taken under the circumstances and conditions that existed at the time the expenditure was made.

C. CONTRIBUTIONS

1. *Objective.* To determine whether contributions equal the percentages specified in the approval letter and/or agreement, and were eligible and properly documented.
2. *Reference.* 7 CFR part 1483.6(viii).
3. *Review Steps:*
- a. Verify that the contributions' documentation indicates all funding sources and amounts that were contributed by each entity towards the activity. Contributed resources may include cash, goods or services.

- b. On a test basis, trace reported contributions to source documentation. Verify that:
 - (1) Contributions were in furtherance of the approved activity.
 - (2) Contributions were eligible.
 - (3) Contributions were not reimbursed to the contributor by another source.
- c. Determine whether the Participant's contribution equals or exceeds the percentage specified in the approval letter and/or agreement.

D. FLY AMERICA ACT REQUIREMENTS

- 1. *Objective.* To determine whether the Participant complied with the "Fly America Act" as specified in the U.S. Federal Travel Regulation (FTR) for transportation expenditures reimbursed with QSP funds.
- 2. *References.* 7 CFR part 1483.12(c); FTR 41 CFR parts 301-10.131 through 301-10.143.
- 3. *Review Steps.* Review expense claims on a sample basis. Verify that:
 - a. U.S. flag vessels were used for shipping at least 50 percent of all commodity samples from the U.S. port of export to the foreign port (or point of entry).
 - b. If exceptions were granted for usage of non-U.S. flag vessels, the Participant must provide a certification as outlined in the FTR (41 CFR part 301-10.142).

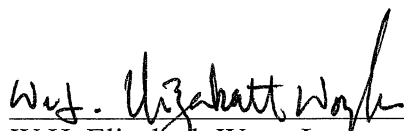
E. REPORTING REQUIREMENTS

- 1. *Objective.* To determine whether the written evaluation report was submitted to GPB and/or CPD within the specified timeframe.
- 2. *Reference.* 7 CFR part 1483.10.
- 3. *Review Steps.*
 - a. Obtain copy of and verify that the written evaluation report was submitted within 90 days of the expiration of the Participant's agreement.
 - b. The written evaluation report should address all performance measures that were presented in the Participant's QSP proposal.

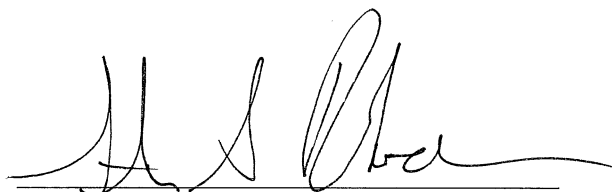
F. CONTACT INFORMATION

If you have any questions or comments about this guide, please address them to W.H. Elizabeth Wong Lee, Compliance, Security and Emergency Planning Division, via telephone at (202) 720-6713, via fax at (202) 720-7138, or via e-mail at Beth.Wong@fas.usda.gov.

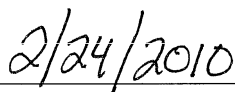
Approved By:



W.H. Elizabeth Wong Lee
Supervisory, Compliance Review Officer
Compliance, Security and
Emergency Planning Division



Steven S. Rhodes
Director
Compliance, Security and Emergency
Emergency Planning Division



Date